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No. 05-130

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF

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INTRODUCTION AND SUMMARY OF ARGUMENT

The sixteen briefs of respondent and its *amici* devote very few pages to defending the stated permanent injunction test used in the decision below and, indeed, in twenty years of Federal Circuit case law. The Federal Circuit's erroneous approach cannot be rehabilitated in this case as a correct application of the abuse-of-discretion standard of review to the traditional four-factor test.

MercExchange and its *amici* do not dispute that, under the four-factor test, an injunction may *not* issue if the trial court reasonably finds that the plaintiff will not suffer "irreparable injury" and has "an adequate remedy at law." Pet Br. 34-35. Such a reasonable finding ends the matter. Respondent does not point to one fact about this case that suggests that, absent an injunction, it will be irreparably injured, or lack an adequate legal remedy.

The district court reasonably found that the Federal Circuit's (erroneous) presumption of irreparable harm was rebutted based on three facts that a trial court is in the best position to assess. *First*, an injunction would not prevent unnecessary, multiple litigation because new "separate infringement *trials*" would still be necessary to determine "if the changes to defendants' system" infringe MercExchange's undisputedly amorphous patent. Pet. App. 58a-59a (emphasis added). Far from denigrating respondent's right to exclude, or requiring respondent to give eBay a compulsory license, the district court stated that it was likely "to award enhanced damages" if eBay's "new systems" were found to infringe. *Id.* at 59a. *Second*, if eBay's work around is proven to be a new infringement, MercExchange's injury will be solely monetary as it exists only to license, does not commercialize its patents, said it was only seeking damages, and confirmed that by not seeking a preliminary injunction. *Id.* at 54a-56a. *Third*, any monetary injury to MercExchange during the attempted work around could be readily remedied under 35 U.S.C. § 284, which provides that "the court *shall* award the

claimant damages *adequate* to compensate for the infringement.'" 35 U.S.C. § 284 (emphases added); Pet. App. 59a (finding that "the plaintiff will certainly be compensated"). MercExchange's own experts stated that their damages method captured "the total economic value of the resulting reasonable royalty that is *adequate* to fairly compensate MercExchange for the defendant's infringement." Fed. Cir. App. A27601 (emphasis added).

Instead of basing their arguments on the facts reasonably found by the district court, MercExchange and their *amici* argue that patentees "generally" show irreparable injury and an inadequate remedy at law. But the discretionary four-factor test embodied in 35 U.S.C. § 283 is the antithesis of a "one size fits all" rule. *Other* patentees will sometimes need an injunction to prevent unnecessary, multiple litigation. For example, in a garden-variety case of intentional copying, an injunction is obviously proper because a work around is neither planned nor plausible. *Other* patentees sometimes will suffer a non-monetary injury. For example, a manufacturer might want to exclude any competing product from the market. But none of this applies to the facts of this case as found by the district court.

It cannot be an abuse of discretion to find, based on the facts of this case, a lack of irreparable injury and that damages would be an adequate remedy. The damage to patent cases from twenty years of the Federal Circuit's near-automatic injunction rule has been bad enough. That damage should not be expanded by neutering the discretionary four-factor test that is central to myriad areas of the law.

ARGUMENT

I. 35 U.S.C. § 283 REQUIRES APPLICATION OF THE FOUR-FACTOR TEST.

The United States agrees that the "familiar four-factor test set out in *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305

(1982)" "provides the appropriate framework for disciplined evaluation of the special considerations that apply to patent claims"; that "[t]he decision whether injunctive relief is appropriate must necessarily turn on the facts of each case"; and that appellate courts review the application of the four-factor test for "abuse of discretion." U.S. Br. 9.

Remarkably, MercExchange never directly states its position on whether 35 U.S.C. § 283 requires application of the four-factor test. Instead, MercExchange obliquely defends the Federal Circuit's approach as a "*general* rule that a permanent injunction will issue once infringement and validity have been adjudged." Resp. Br. 15. But, as the Solicitor General succinctly explains, "[c]onstrued as enunciations of the governing legal rule, [the Federal Circuit's] statements would be erroneous: no 'general rule' mandates injunctive relief in patent cases." U.S. Br. 12.

Ignoring that this case involves injunctive relief, MercExchange first defends the Federal Circuit's "general rule" by citing cases interpreting civil rights statutes giving courts discretionary authority to award backpay and attorneys' fees. Resp. Br. 15-16. *Albemarle Paper Co.* v. *Moody*, 422 U.S. 405 (1975), required backpay under Title VII because that remedy is necessary to deter employment discrimination and, like damages, serves a compensatory or "make whole" purpose. And, *Newman* v. *Piggie Park Enterprises*, 390 U.S. 400 (1968), held that attorneys' fees should ordinarily be awarded to prevailing civil rights plaintiffs, because the public interest required such plaintiffs to act as "private attorney[s] general." *Id.* at 402. None of these justifications is remotely applicable to the granting of *injunctions* under the Patent Act, which is primarily addressed to private commercial relations, expressly requires "adequate" compensation for infringement, 35 U.S.C. § 284, and confines attorneys' fees to "exceptional cases." *Id.* § 285.

MercExchange next claims that this Court's cases applying the four-factor test do not undermine the "general rule"

because they hold only that "irreparable harm cannot be presumed from the bare violation of a statute where none of the harms the statute was designed to prevent have occurred." Resp. Br. 16. These decisions cannot be cabined in this way. *Romero-Barcelo*, for example, instructed district courts to consider the four factors even though the defendant was discharging munitions into the water. 456 U.S. at 312-13. Respondent cites no decision rejecting the four-factor test for a statute that grants discretionary authority to issue injunctions.

That leaves MercExchange with a weak defense of the Federal Circuit's "general rule" as a descriptive observation that patentees are often entitled to injunctive relief. A "general" trend, however, by definition admits there are counter-examples.[1] Moreover, Respondent's "general rule" originated in the application of the four-factor test to patents of a materially different type in a different era—*i.e.*, before business method patents and NPEs existed. The Federal Circuit did not recognize business method patents until 1998, *State Street Bank & Trust Co.* v. *Signature Fin. Group, Inc.*, 149 F.3d 1368, 1375-77 (Fed. Cir. 1998), and NPEs are also a recent development. See Richard A. Posner, *Do We Have Too Many Intellectual Property Rights?* 9 Marq. Intell. Prop. L. Rev. 173, 184-85 (2005) ("In the old days, such ideas would have been thought non-patentable, would have been considered the kind of normal business innovation that is driven by incentives that did not depend on propertization. A number of what would have in the olden days been thought dubious improvements in business methods have been granted patents .... This kind of business strategy [by NPEs] creates impediments to inventions.").

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[1] Nor can MercExchange correctly claim that "Congress ... acquiesced in the 'general rule'" when it recodified Section 283 in 1952. Resp. Br. 27 & n.35. At that time, three circuit courts and a major, recent treatise applied the four-factor test to permanent injunctions in patent cases. Pet. Br. 46 & n.17, 28 (citing authorities).

Because the Federal Circuit froze its near-automatic injunction rule before these developments, it has never examined critically whether the factors that often favor injunctions for some patents inflexibly apply to all patents. The point is not that new types of patents or patentees are disfavored, but that they can differ in ways that, in some cases, have a significant impact on the four factors relevant to injunctive relief. District courts should have flexibility and discretion in applying the traditional test to these circumstances.

Indeed, that patent law has expanded vindicates Congress's determination to use the flexible, discretionary four-factor test. We agree with the Solicitor General that it is critical to returning patent law to its statutory moorings that this Court itself review the district court's application of the four-factor test.[2]

II. THE FEDERAL CIRCUIT'S DECISION CANNOT BE RESURRECTED UNDER THE FOUR-FACTOR TEST.

MercExchange argues that the Federal Circuit's decision is really an application of the abuse of discretion standard of review. Resp. Br. 19. Of course, the panel below did not even mention that standard of review or any of the four factors under the traditional test. This is because the Federal

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[2] All parties agree that *Continental Paper Bag Co.* v. *Eastern Bag Co.*, 210 U.S. 405 (1908), holds only that a district court may grant a patentee an injunction even if it has decided not to use or license its invention, and that this holding is not implicated by the facts of this case. *See* U.S. Br. 10; Resp. Br. 44. As demonstrated by Brief of *Amicus* Research In Motion, Ltd., at 17, the district court in *Continental Bag* easily had discretion under the four-factor test to issue an injunction.

Circuit has not applied the discretionary four-factor test to a permanent injunction since 1984. Pet. Br. 46 n.17.[3]

It would render the abuse of discretion standard meaningless if a reversal could be based on mouthing the words "legal error" or labeling the district court's reasons not "'persuasive.'" Resp. Br. 34-44 (citing Pet. App. 26a-28a). MercExchange and its *amici* do not cite any statutory provision or prior case that contradicts any of the reasons given by the district court in applying the four factors. *See id.* Absent legal error, MercExchange must make "a strong showing of abuse." *United States* v. *W. T. Grant Co.*, 345 U.S. 629, 633 (1953). It is insufficient to show merely that a different court could reach a different result, but rather MercExchange and "the Government must demonstrate that there was no reasonable basis for the District Judge's decision." *Id.* at 634. Neither MercExchange nor its *amici* come close.

A. The District Court Reasonably Found The Absence Of Both An Irreparable Injury And An Inadequate Legal Remedy: There is no dispute that absent irreparable injury and an inadequate legal remedy, a court may not grant an injunction under the four-factor test. Pet. Br. 34-35 (citing cases).[4] Here, the district court reasonably found that MercExchange could be adequately protected by damages, including enhanced damages for any infringement if eBay's work around proves to be infringing. Accordingly,

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[3] This is confirmed by respondent's exhaustive survey that could not find one Federal Circuit decision on a permanent injunction after 1984 that mentioned any of the first three factors. Resp. Br. 18-19 & nn. 16-20.

[4] Like MercExchange, we address irreparable injury and an inadequate remedy at law "as two sides of the same coin." Resp. Br. 28 n.36. Accordingly, throughout this section, references to irreparable harm include an inadequate legal remedy.

the district court's denial of an injunction should be upheld—irrespective of the other two factors.[5]

Like the Federal Circuit, MercExchange fails to show that any facts in this case would support a finding of irreparable harm. MercExchange instead argues that there should be a "presumption" of irreparable harm after a finding of infringement. Resp. Br. 17. But this Court has held that such a "presumption is contrary to traditional equitable principles." *Amoco Prod. Co.* v. *Village of Gambell, Alaska*, 480 U.S. 531, 545 (1987); see also *Rizzo* v. *Goode*, 423 U.S. 362, 378 (1976) ("Even in an action between private individuals, it has long been held that an injunction is to be used sparingly, and only in a clear and plain case."). MercExchange also ignores that when Congress wanted a presumption, it expressly provided one. See, *e.g.*, 35 U.S.C. § 282 ("A patent shall be presumed valid."). Section 283 of the Patent Act does not contain any presumptions.

Although the United States correctly acknowledges that it is improper to presume the existence of any of the four factors, U.S. Br. 17 n.13, it seriously errs by placing a burden on the defendant "to establish" the absence of irreparable harm. *Id.* at 24-25. This is a distinction without a difference. The *movant* must "satisfy the traditional prerequisites of extraordinary equitable relief." *Rondeau* v. *Mosinee Paper Corp.*, 422 U.S. 49, 61 (1975). When the Patent Act intended to shift a burden to the defendant, it did so expressly. See, *e.g.*, 35 U.S.C. § 295 (shifting to defendant "the burden *of establishing* that the product was not made by the process") (emphasis added). It did not do so in Section 283. In any event, if any presumption exists, it would be rebuttable. The

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[5] If this Court concludes that the district court committed a reversible error, the only appropriate remedy would be to instruct the Federal Circuit to remand to "the discretion of the district court" to reweigh the four factors, and not for the Federal Circuit to engage in a *de novo* consideration of those factors. *Mitchell* v. *Lublin, McGausky & Assocs.*, 358 U.S. 207, 215 (1959).

district court applied the Federal Circuit's presumption, and reasonably found that eBay overcame it. Pet. App. 53-54a. Indeed, the district court made reasonable findings that negate each of the three possible irreparable harms raised by MercExchange and its *amici*: (1) multiple litigation; (2) non-monetary injury; and (3) difficulty of assessing damages.

1. An Injunction Would Not Render Multiple Litigation Unnecessary: We begin with the issue of multiple litigation because, as MercExchange concedes, the "first expla[nation]" for injunctions in patent cases was to protect against the irreparable harm of "'the necessity of perpetual litigation.'" Resp. Br. 30 (quoting 2 Joseph Story, *Commentaries on Equity Jurisprudence* §§ 930-931, at 209-10 (1836)). MercExchange mischaracterizes the district court as ruling that "a threat of contempt proceedings for violating an injunction should weigh in an adjudged infringer's favor." Resp. Br. 41. But the district court reasonably found that, if an injunction were granted, the amorphous nature of MercExchange's patent guaranteed that the court would have to hold more than a contempt hearing. Specifically, the district court found that it would have to "conduct separate infringement *trials* to determine if the changes to the defendants' system violate the injunction. This will result in extraordinary costs to the parties, as well as considerable judicial resources. In fact, the court would most likely be required to retain an expert in the field to determine if the new systems infringe on the patent." Pet. App. 59a (emphasis added).

MercExchange cannot and does not challenge the district court's determination that, even with an injunction, a separate infringement trial would be necessary. A district court has "broad discretion" to determine "whether a contempt hearing is an appropriate forum in which to determine whether a redesigned device infringes, or whether the issue of infringement should be resolved in a separate infringement action." *Additive Controls & Measurement Sys., Inc.* v.

Flowdata, Inc., 154 F.3d 1345, 1349 (Fed. Cir. 1998). When "'substantial open issues' of infringement are raised by the new device, then contempt proceedings are inappropriate." *Id.* (citation omitted).

Although MercExchange premises all of its arguments on the assertion that eBay's "new systems", Pet. App. 59a, will "contin[ue] its infringement," Resp. Br. 28, that is precisely what the district court reasonably found it would take an additional "trial[]" to determine. Pet. App. 59a. Accordingly, because an injunction would not render multiple litigation unnecessary, or even shorter, what MercExchange concedes is the "first" basis for a patent injunction is unavailable in this case.

2. MercExchange's Potential Injury Is Solely Monetary.

A. MercExchange's principal contention is that the "nature" of the right to exclude supports a virtually irrebuttable presumption that a patentee will suffer some irreparable harm. Resp. Br. 28. This is incorrect.

The right to exclude recognized in 35 U.S.C. § 154(a)(1) does not exist in isolation. Although Congress has made the award of "adequate" damages mandatory for a violation of the right to exclude, *id.* § 284, it expressly made injunctive relief discretionary based on "the principles of equity." *Id.* § 283. Thus, in § 283, Congress itself balanced the various interests under the statute, including the "right to exclude," and eschewed a special rule favoring patentees. Instead, Congress used language in § 283 that gave district courts the broadest discretion. The balance struck by Congress in § 283 would be dishonored if § 283's grant of broad discretion were negated by abstract rhetoric about the right to exclude unconnected to the particular facts of the particular case. Pet. Br. 24-25 (citing cases).

Instead, § 283's grant of broad discretion means that a district court must look to the specific facts of each case to

determine if the patentee's interests will be irreparably harmed absent an injunction. As held in *Sampson* v. *Murray*, 415 U.S. 61 (1974)—a case ignored by MercExchange and its *amici*—"the key word in this consideration is irreparable. Mere injuries, *however substantial*, in terms of *money*, time and energy ... are not enough." *Id.* at 90 (emphases added).

MercExchange must therefore point to a non-monetary injury. But, as the district court reasonably found, MercExchange's potential injury if eBay's work around fails is solely monetary. Pet. App. 54a-56a.

The district court relied on four different facts—(1) MercExchange's "willingness to license its patents;" (2) "its lack of commercial activity in practicing its patents;" (3) its "numerous comments to the media before, during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages;" and (4) its decision not to seek a preliminary injunction. Each of these facts reasonably and logically supports the district court's finding that MercExchange's only injury would be monetary.[6] No facts were presented to the contrary.

First, as the United States concedes, "[a] patentee's willingness to license [is] not irrelevant to a district court's inquiries into 'irreparable harm.'" U.S. Br. 24. But that is exactly the way in which the district court used MercExchange's willingness to license—as one of a number of relevant facts showing that any future injury to MercExchange would be a monetary injury. Even the Federal Circuit has drawn the exact same permissible inference in preliminary injunction decisions. See, *e.g.*, *High Tech Med.*

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[6] The United States cites *Amoco* to suggest that an injury to a patent right is akin to other injuries, which by their very "nature" have "'irreparable consequences.'" U.S. Br. 16. But in *Amoco*, this Court merely observed that an "[e]nvironmental injury, by its nature, can seldom be adequately remedied by money damages." 480 U.S. at 545 (emphasis added). Environmental injury is not economic injury.

Instrumentation v. *New Image Indus., Inc.*, 49 F.3d 1551, 1557 (1995) (willingness to license "suggests that any injury would be compensable in damages").[7]

MercExchange asserts that the district court used MercExchange's willingness to license as "in effect, estopp[ing]" MercExchange from asserting its right to exclude. Resp. Br. 35. Likewise, MercExchange raises the spectre of "compulsory licensing." *Id.* at 21, 46. Both assertions are false. The district court stated that if eBay's "design around" failed, eBay would face the prospect of "enhanced damages for any post-verdict infringement." Pet. App. 58a-59a. That is an effort to vindicate MercExchange's right to exclude—the antithesis of an estoppel against MercExchange or a compulsory license. Indeed, MercExchange told the district court: "Awarding postjudgment enhanced damages ensures that infringers do not have an incentive to continue infringing." Fed. Cir. App. A62784.[8]

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[7] The United States hypothesizes a number of circumstances where a patentee-licensor might be irreparably harmed by an infringer, *e.g.*, where a patentee "promote[s] its own brands by requiring its licensees to display its trademarks." U.S. Br. 24-25. The United States does not contend that any of these hypothetical circumstances applies to this case.

[8] The Federal Circuit itself recognizes that denying a permanent injunction based on the fourth factor—public interest—does not create a compulsory license. Neither should basing denial on lack of irreparable injury. Thus, the United States' reference to international agreements barring certain compulsory licensing systems is inapposite. U.S. Br. 18 & n.17. For a more detailed response, see Br. of *Amici* 52 Intell. Prop. Law Profs. 10-11 ("TRIPs permits the United States to give its courts the power to deny injunctions in particular cases.").

MercExchange is also incorrect in speculating, citing a newspaper article, that eBay's alleged 80 percent gross "profit margin" is greater than treble damages. Resp. Br. 29 n.37. MercExchange's experts calculated damages equal to "approximately 30% of eBay's net income for fixed price sales." Fed. Cir. App. A38161:7-18. Trebling that is 90%—*i.e.*, more than MercExchange's speculation.

By ignoring the district court's warning about "enhanced damages," MercExchange offers a false choice often presented by those seeking injunctions. It pretends as if the choice is "whether enforcement is preferable to no enforcement at all." *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 498 (2001). In fact, the discretionary choice under 35 U.S.C. § 283 "is simply whether a particular means of enforcing the statute should be chosen over another permissible means." *Id.* at 497-98.

MercExchange also invokes 35 U.S.C. § 271(d)(4), Resp. Br. 36, but that provision supports the district court. Section 271(d)(4) provides: "No patent owner otherwise entitled to relief for infringement ... shall be denied relief ... by reason of his having ... refused to license." But the district court relied on MercExchange's "willingness to license," Pet. App. 59a, which is the polar opposite of a "refus[al] to license." MercExchange thus once again tries to rewrite the statute—to change "refused to license" to "*licensed or* refused to license." The omission of a statutory safe harbor for patentees that license indicates that Congress understood that a willingness to license can be a relevant factor in determining the appropriate relief for a given case.

MercExchange is ultimately reduced to arguing that the district court's approach would cause patentees to cease profitable licensing to improve their chances of winning in court "via injunctions." Resp. Br. 37-38. Of course, absent the laws against perjury and frauds on courts, any plaintiff in a business dispute could seek to exaggerate its injury by changing its business practices for concealed litigation purposes, rather than for business reasons. That is hardly an argument that it was unreasonable for the district court to rely on the fact that MercExchange "exists merely to license," Pet. App. 54a, as one fact showing that if eBay's work around

proves to be a new infringement, then MercExchange's injury would be solely monetary.[9]

Second, for similar reasons, the district court reasonably relied on MercExchange's "lack of commercial activity in practicing its patents." Pet. App. 55a. Such inactivity provided a reasonable check that the district court had not overlooked a non-monetary injury. Indeed, in the preliminary injunction context, the Federal Circuit has held that "the lack of commercial activity by the patentee is a significant factor" in rebutting "the patentee's claim of irreparable harm." *High Tech*, 49 F.3d at 1566-67.

Third, the district court reasonably relied on MercExchange's statements that "it did not seek to enjoin eBay but rather sought appropriate damages for the infringement." Pet. App. 54a. Although MercExchange tries to spin away from its own statements, Resp. Br. 43 n.55, the interpretation and weight given to a party's admissions are classic matters for the trial court's discretion.

Fourth, the district court reasonably relied on the plaintiff's decision not to seek a preliminary injunction. Pet. App. 55a. Without citation, MercExchange contends that "'irreparable harm' has a different meaning at the preliminary injunction stage." Resp. Br. 41-42. But that contradicts MercExchange's central argument that irreparable harm flows, without more, from the "nature" of the right to exclude. *Id.* at 28. Under 35 U.S.C. § 154(a)(1), it is the patent grant that creates the "right to exclude," not a jury verdict or judgment years later. Thus, MercExchange's decision, which made damages the sole remedy for the nearly two years between the complaint and the close of trial, confirmed that the harm to its "right to exclude" in that period was solely monetary. The district

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[9] By 1995, MercExchange had ceased any effort to commercially develop its patent, and had focused solely on licensing. JA 640-41, 732. It was not until 2000 that MercExchange believed eBay was infringing. JA 644-47, 681-82, 102-04; *see* JA 640-41.

court reasonably concluded that MercExchange's harm did not magically become a non-monetary injury the day after the verdict. Indeed, MercExchange reached the same conclusion, as it asked the district court to order that eBay would be liable for *post*-verdict "compensatory damages" measured by "the reasonabl[e] royalty rates determined by the jury." Fed. Cir. App. 62774, 62782.

B. MercExchange also cannot use the law of personal property as a substitute for evidence of irreparable harm. Resp. Br. 29. Even in personal property cases, a court must consider whether an injunction is proper on a case-by-case basis under the four-factor test. Pet. Br. 26-27 (citing cases); see also *United States* v. *Zenon*, 711 F.2d 476, 478 (1st Cir. 1983) (Breyer, J.) ("a court has [the] power to enjoin a trespass *if* it would cause irreparable injury") (emphasis added). Although a one-of-a-kind chattel such as an heirloom or antique is considered "unique," that label does not apply to property for which damages would be an adequate remedy. See 2 Joseph Story, *Commentaries on Equity Jurisprudence* § 709 (13th ed. 1886) (injunctions will issue only with respect to personal property "which could not be replaced in value").

3. MercExchange's Monetary Injury Could Be Calculated In Damages: The district court found that "the plaintiff certainly will be compensated for any actions by the defendants in the absence of an injunction." Pet. App. 59a. MercExchange argues that the district court abused its discretion in failing to find that its monetary injury was irreparable because of the "well-established difficulty of proving and assessing damages for patent infringement." Resp. Br. 31. This newly minted argument was never made to the district court or the Federal Circuit.

It is also contradicted by MercExchange's own proof. Monetary injury can be irreparable harm in only the rare case where "the ascertainment [of damages] is impossible, or nearly so." *Caddy-Imler Creations, Inc.* v. *Caddy*, 299 F.2d 79, 84 (9th Cir. 1962); *accord Cellular Sales, Inc.* v. *MacKay*,

942 F.2d 483, 487 (8th Cir. 1991) (plaintiff must "prove that his losses are incapable of calculation"). MercExchange was awarded $29.5 million in damages at trial. See Pet. Br. 8. One of MercExchange's experts stated that its damages reflected "the total economic value of the resulting reasonable royalty that is *adequate* to fairly compensate MercExchange for the defendant's infringement." Fed. Cir. App. A27601 (emphasis added). He added: "It seems most reasonable to me to conclude that the licensing rates actually obtained by MercExchange represent the best approximation of what MercExchange would have expected from the hypothetical negotiation [with eBay]." *Id.* at A27532.

Another MercExchange expert testified: "There are several ways to determine a reasonable royalty ... *I believe that this case lends itself to this sort of determination* ... [O]ne selects the royalty base ... that is most easy to determine and most reflective of the value of the technology, the patented technology .... [This is] something that's *very easy to determine*." *Id.* at A37979:5-A37980:11 (emphases added). He further explained that he relied on "the methods and system that I use in my real world experience, the experience I had when I was negotiating licenses on behalf of my company." JA 783. He concluded that his calculations provided "the best measure of the success and utilization of the patents-in-suit." Fed. Cir. App. 38103:15-38104:21.[10]

Moreover, Congress has expressly provided that in every case the district "court *shall* award damages *adequate* to compensate for the infringement." 35 U.S.C. § 284 (emphases added). That statutory command is irreconcilable with MercExchange's argument that generally patent damages are too difficult to determine.

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[10] MercExchange points to dictum in one century-old case. Resp. Br. 31. This was long before the kinds of economic analyses used by MercExchange in this case were developed.

To the contrary, patent damages may be estimated, with any uncertainty concerning the amount resolved against the infringer. See *Bigelow* v. *RKO Radio Pictures*, 327 U.S. 251, 265-66 (1946) ("The constant tendency of the courts is to find some way in which damages can be awarded ...."); *Sensonics, Inc.* v. *Aerosonic Corp.*, 81 F.3d 1566, 1572 (Fed. Cir. 1996) ("However, if actual damages cannot be ascertained with precision ..., damages may be estimated on the best available evidence, taking cognizance of the reason for the inadequacy of proof and resolving doubt against the infringer."). Indeed, because of the availability of nationwide venue, patent damages are estimated by plaintiff-friendly juries. See Pet. Br. 48.[11]

MercExchange's only purported support for why it might have difficulty proving damages for infringement of the '265 patent is its conclusory assertion that its license with AutoTrader "include[s] multiple significant terms that go beyond a mere exchange of money for the right to use the invention. See JA 493-512. The value of such terms ... are commonly not replicable by a simple award of money." Resp. Br. 36. This is a red herring. The AutoTrader license is limited to "auction-style" sales, JA 494-95, and the district court estopped MercExchange from arguing that the '265 patent's fixed-price claims cover auction-style sales. Fed. Cir. App. A136-39.[12] Moreover, MercExchange's reference to "JA 493-512" simply cites the entire AutoTrader license. MercExchange does not provide any explanation why any license term could not be measured in damages. Thus, MercExchange provides nothing to contradict its own experts

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[11] The United States hypothesizes a number of circumstances, such as injury to "reputation for innovation," that might not be "readily restored" by damages. U.S. Br. 16. The United States does not contend, however, that any of these hypothetical circumstances applies to this case.

[12] The only injunction issue before this Court concerns the '265 patent. The Federal Circuit held that the '176 patent was invalid, and remanded the '051 patent for a liability trial. Pet. App. 3a.

that they were able to calculate damages "adequate to fairly compensate MercExchange for the defendant's infringement." Fed. Cir. App. A27601.[13]

B. The District Court Reasonably Balanced The Hardships: MercExchange's primary argument on this point is premised on its prior argument that it will suffer "irreparable harm." Resp. Br. 34-35. Because this premise is wrong, MercExchange cannot even offer a reason why this Court should address the balance of the hardships.

In any event, MercExchange's argument that, as a matter of law, when a jury finds that a defendant willfully infringed, the district court cannot balance the hardships, see Resp. Br. 32,[14] is wrong. "The historic injunctive process was designed to deter, not to punish." *Hecht* v. *Bowles*, 321 U.S. 321, 329-30 (1944). Moreover, in patent cases, unlike tort cases, the Federal Circuit defines willfulness to include the failure to "exercise[] due care." *Vulcan Eng'g Co.* v. *Fata Aluminum, Inc.*, 278 F.3d 1366, 1378 (Fed. Cir. 2002); see *Knorr-Bremse Systeme Fuer Nutzfhrzenge GMBH* v. *Dana Corp.*, 383 F.3d 1337, 1351 (Fed. Cir. 2004) (Dyk, J., concurring in part and dissenting in part) (describing how Federal Circuit's approach to willfulness has become "an island separated from the main body of American jurisprudence"); Note, *The Disclosure Function of the Patent System (Or Lack Thereof)*, 118 Harv.

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[13] MercExchange also oddly refers to "lost profits." Resp. Br. 31. MercExchange has never even claimed lost profits in this case. Moreover, "MercExchange today only licenses its inventions." *Id.* at 40. Thus, MercExchange cannot claim any potential future lost profits on products it makes. In any event, past and future lost profits are "estimate[d]" in patent cases, just as they are in antitrust and other complex cases. *See, e.g., Shockley* v. *Arcan*, 248 F.3d 1349, 1362 (Fed. Cir. 2001); *Bio-Rad Labs., Inc.* v. *Nicolet Instrument Corp.*, 739 F.2d 604, 616 (Fed. Cir. 1984).

[14] Respondents sole case citation, *Windsurfing Int'l, Inc.* v. *AMF, Inc.*, 782 F.2d 1995, 1003 n.12 (1986), *see* Resp. Br. 32 n.42, is puzzling because that footnote in *Windsurfing* indicates there was no willfulness.

L. Rev. 2007, 2017-18 (2005) ("The willful infringement rules in patent law are significantly less stringent.").

The district court found that here even a lack of due care was a "close call," Pet. App. 70a, because the jury's sole basis was that after eBay learned of the patent in "June of 2000," it did not "obtain an opinion of counsel or conduct a patent clearing investigation." *Id.* at 34a-35a. As the district court found, "eBay was using payment processors long *before* it received notice of the '265 patent"; eBay did not copy anything; and eBay's "success did *not* arise from the use of anything contained in the plaintiff's patents." *Id.* at 68a-69a (emphases added). See Pet. Br. 9 n.5 (quoting MercExchange's experts that eBay achieved significant success before 2000). In these circumstances, a trial court has discretion to decline to issue an injunction when the defendant's liability is based on a failure of due care. See *SEC* v. *Aaron*, 446 U.S. 680, 703 (1980) (Burger, C.J., concurring).

Similarly, MercExchange incorrectly argues that its "statutory right" to exclude must receive "special consideration" in a balance of hardships. Resp. Br. 25. Because irreparable injury is not present, MercExchange's right to exclude will be fully vindicated by the prospect of enhanced damages if eBay's work around fails. See *supra*, at 11. In these circumstances, all that an injunction could accomplish would be to coerce eBay into (a) abandoning its attempt to work around, and (b) paying a settlement amount far in excess of the value of using MercExchange's patent. Both would disserve the Patent Act. Abandoning a work around is contrary to the Patent Act's policies of promoting innovation, refinement, and competition. See Pet. Br. 24 (citing cases). Enabling the patentee to obtain an extortionate settlement is incompatible with Congress' determination in 1946—which MercExchange and its *amici* ignore—to amend the Patent Act

so that a patentee could not obtain an infringer's profits in excess of the patentee's actual damages. *Id.* at 34.[15]

C. The District Court Reasonably Weighed The Public Interest: For similar reasons, MercExchange cannot show an abuse of discretion by citing "the strong public interest ... in protecting the patent system's integrity" – which it offers as a synonym for a patentee's right to exclude. Resp. Br. 33, 43. The district court's decision protected the patentee's right to exclude in at least two ways. First, MercExchange could have shown irreparable injury by proving that eBay was not genuinely planning a sufficiently plausible work around. See *supra*, at 8-9. MercExchange does not even contend that it did this. Second, the district court stated that eBay may well face "enhanced damages" if its work around fails. Pet App. 59a.

Moreover, the district court correctly protected "the patent system's integrity" by noting the increased possibility of subsequent invalidation of a business method patent such as MercExchange's. See Pet. App. 59a. This cannot be criticized as an inapplicable, abstract overgeneralization, because subsequently the PTO's staff took written action *rejecting* all of the claims in the '265 patent. JA 1057. It hardly promotes respect for "the patent system's integrity" for courts to enforce injunctions on patents where the latest action from the PTO staff indicates that the patent is invalid.

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[15] Indeed, evidently uncomfortable with the coercion that logically flows from its position, the United States concedes that if there is a remand, the district court would have discretion "to accommodate a wide variety of [eBay's] objections" and "legitimate concerns" by issuing a very narrow injunction. U.S. Br. 28-29. In fact, under Fed. R. Civ. P. 65(d), and independently of the four-factor test, the district court would have discretion to deny a permanent injunction "[b]ecause the proofs required for determining future infringing activity are not insignificant and not amenable to a narrowly tailored order." *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1380-81 (Fed. Cir. 2005).

Indeed, the United States concedes that because of the PTO staff's current rejection, the district court "would have discretion" to stay any injunction. U.S. Br. 27 n.27. The United States makes no attempt to reconcile how the PTO's action is sufficiently final to justify, by itself, a multi-year stay, but is somehow too "provisional," *id.* at 26, even to be considered in addressing whether to issue an injunction. The "public interest" does not change simply because a court is considering an injunction rather than a stay. See *Hilton* v. *Braunskill*, 481 U.S. 770, 776 (1987) (noting that fourth stay factor is "where the public interest lies").

* * * *

In sum, MercExchange and its *amici* do not identify a single fact that is missing from this case but that in another case might show an absence of irreparable injury, the presence of an adequate legal remedy, or a different balance of the hardships. Thus, their proposed presumptions, or statements about "general" tendencies, really amount to what MercExchange calls an "irrefutabl[e]" rule. Resp. Br. 28. Under that rule, without regard to the facts, a district court must grant an injunction except in the exceedingly "rare[]" case that satisfies a public interest exception. *Id.* at 33. But that is the very rule that the Federal Circuit has employed for twenty years, in complete disregard of Section 283's discretionary language. Pet. App. 26a. This Court should not accept any invitation to negate the abuse of discretion standard of review and the discretionary four-factor test by equating them to the Federal Circuit's erroneous approach. This Court can reestablish the correct approach only by upholding the district court's decision.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be reversed.

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PETITIONERS

v.

MERCEXCHANGE, L.L.C.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING RESPONDENT

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QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in applying the legal standard governing the issuance of a permanent injunction after a finding of patent infringement.

2. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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